

SURREBUTTAL TESTIMONY OF STEVE W. GUNTER

FOR

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 98-653-S

IN RE: Palmetto Utilities, Inc.

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Steve W. Gunter. My business address is Koger Executive Center, Saluda Building, 101 Executive Center Drive, Columbia, South Carolina. I am employed by The Public Service Commission of South Carolina, Audit Department, as an auditor.

Q. ARE YOU THE SAME STEVE GUNTER WHO ORIGINALLY FILED DIRECT STAFF TESTIMONY IN THIS DOCKET?

A. I am.

Q. WHY ARE YOU FILING SURREBUTTAL TESTIMONY?

1 A. I am filing surrebuttal testimony to respond to the rebuttal testimony of R. Stanley
2 Jones and William T. Pouncey filed on behalf of Palmetto Utilities, Inc.

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4 Q. MR. GUNTER, HOW DID THE STAFF CALCULATE EXPENSE INCREASES
5 ASSOCIATED WITH THE ADDITIONAL CUSTOMERS THAT WERE ADJUSTED
6 FOR OUTSIDE OF THE TEST YEAR?

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8 A. Staff inquired of the Company which expenses would increase due to additional
9 customers. Staff was informed that utilities and chemicals were the only expenses that
10 should increase. The Staff made an adjustment to recognize this increase based on
11 information supplied to us by the Company. Staff would have recognized any other
12 reasonable expense that the Company had felt would be increased as a result of the
13 additional customers. It appears that when asked, the Company felt that the two expenses
14 mentioned above would be the only ones responsive to increases in the additional
15 customers. The Company now feels there are more expenses that need to be adjusted due
16 to the additional customers, but at the time of our audit this was not the case.

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18 Q. WOULD THE STAFF HAVE INCREASED FOR OTHER EXPENSES HAD THE
19 COMPANY MENTIONED THEM DURING THE AUDIT ALONG WITH THE
20 CHEMICALS AND UTILITIES?

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1 A. Staff would certainly have considered doing so, had the expenses appeared to be
2 increasing due to the additional customers.

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4 Q. MR. GUNTER, WITH REGARD TO IMPACT FEES, WAS THE STAFF ABLE TO
5 DETERMINE IF IMPACT FEES WERE USED FOR THE EXPANSION OR
6 MODIFICATION OF PLANT DURING THE TEST YEAR?

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8 A. That is difficult to answer with any certainty. Since these funds are deposited in an
9 operational bank account, it is not possible to completely determine how each dollar was
10 spent. Staff would assume some of it may have been, but due to the mixing of impact fees
11 with operational funds, it is nearly impossible to determine how they were spent. In
12 addition, in response to Staff's inquiry during the audit, Company employees indicated
13 that these funds were also used for day to day operations. Based on this, Staff has to
14 assume that some of the impact fees were spent for normal operations. I do not believe
15 that this is the intended use of impact fees.

16

17 Q. IS THIS WHY STAFF FEELS THAT IMPACT FEES SHOULD BE KEPT
18 SEPARATE FROM OPERATING FUNDS?

19

20 A. Yes, it is. At a minimum, I think it would be in the best interest of both the Company
21 and ratepayers for the Company to accumulate the impact fees in a separate account.
22 Even if the Commission allowed the company to spend these funds without prior

1 approval of the Commission, it would be easy to determine the use of each dollar. If, as
2 the Company believes, these funds were properly spent, then it would appear that this
3 should not be an additional burden, and only prove their point.

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5 Q. MR. GUNTER, ARE YOU NOW SAYING THAT THE STAFF FEELS THAT THE
6 COMPANY SHOULD NOT HAVE TO GET PERMISSION FROM THE
7 COMMISSION IN ORDER TO SPEND THESE FUNDS?

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9 A. The Company seems to feel that this would be a real burden to them. If the
10 Commission agrees that it would be, then at least by using separate accounts it would be
11 easy to determine if the funds were spent for normal operations instead of the intended
12 purpose.

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14 Q. SO, THEN YOU AGREE WITH THE COMPANY ON THIS MATTER?

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16 A. I did not say I agreed, but I do recognize that it would add an additional burden to the
17 company. This burden would be eliminated if the Commission felt that the use of a
18 separate account would be sufficient to safeguard the funds while not requiring the
19 Company to request to make use of them each time they felt it was necessary. Obviously,
20 having two parties overseeing the fund would add more controls, but it might not be
21 necessary. This is totally up to the Commission since the Commission used its authority
22 to set an impact fee in the first place.

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2 Q. DO YOU HAVE ANY COMMENTS CONCERNING THE REBUTTAL
3 TESTIMONY CONCERNING THE METHOD OF HANDLING INTEREST
4 EXPENSE?

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6 A. Yes. First, Staff would agree that there is no question that the amount of interest
7 claimed was paid by the Company. However, Staff has computed Interest Expense
8 associated with the debt portion of Rate Base, which is consistent with prior Commission
9 decisions regarding not only water and wastewater companies, but also electric, gas and
10 telecommunications companies, and it is appropriate under the circumstances of the
11 present case as well.

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13 Second, it is true that the Commission allowed the book Interest Expense in the
14 Company's previous rate case. However, the Commission specifically stated that the
15 decision was for that particular case only and was not meant to be regarded as a
16 precedent. Further, if the Commission accepts Staff's adjustments, the Company is not
17 operating at a loss.

18

19 Third, Mr. Jones states that his Company has never been regulated on a return on rate
20 base. However, he fails to recognize that Rate Base is still an integral part of the
21 ratemaking process. Otherwise, Staff or the Company would have no basis for
22 computing Depreciation or Property Taxes.

1 Q. DO YOU HAVE ANY COMMENTS ON THE REBUTTAL TESTIMONY OF MR.
2 WILLIAM T. POUNCEY?

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4 A. Yes. Mr. Pouncey also questions the appropriateness of Staff's Interest Expense
5 calculation. Staff has made an adjustment in this case to remove non-utility property
6 from Rate Base. If this, or any other non-utility purchase, were financed by Long-Term
7 Debt, then the utility would be asking the ratepayer to pay the Interest Expense associated
8 with non-utility property. Additionally, the Company's Rate Base has been substantially
9 reduced by Contributions in Aid of Construction (i.e. Tap Fees and Impact Fees). That is
10 the primary reason there is such a difference in per book Interest and Staff's adjusted
11 Interest Expense. To allow book Interest Expense without any adjustment would ignore
12 this completely, which is, in fact, what the Company has done. This is only one example
13 of why it is necessary to adjust for Interest Synchronization, so that the allowable Interest
14 Expense for ratemaking purposes is associated with only that investment upon which the
15 utility is allowed to earn a rate of return and/or an operating margin. Since the
16 Company's capitalization was 100% Debt, which is not representative of a "normal"
17 capital structure, Staff has used a 50-50 capital structure as a more reasonable alternative
18 for the Commission's consideration.

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20 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

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22 A. Yes it does.